

# CONSTITUTIONAL & STATUTORY EARMARKS FOR TRANSPORTATION AND WATER

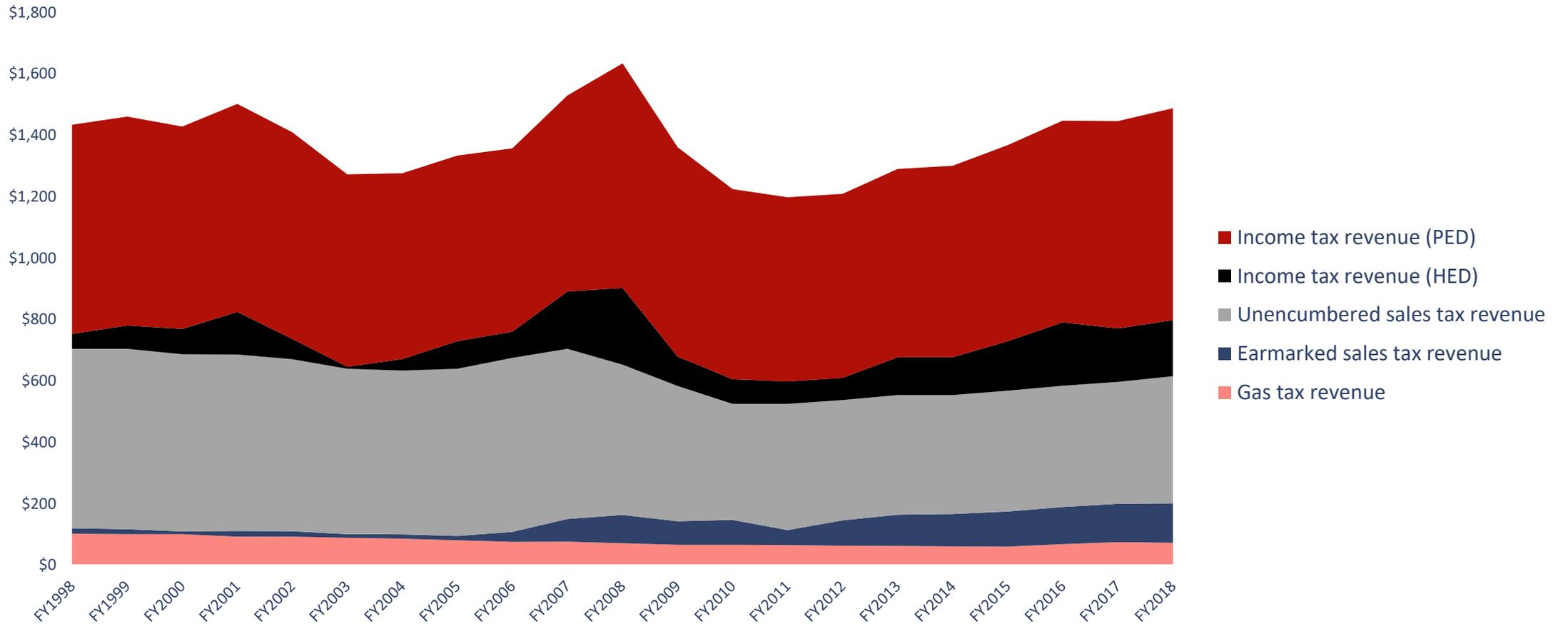
Tax Restructuring and Equalization Task Force

September 26, 2019



# GENERAL REVENUE BY TYPE AND USE

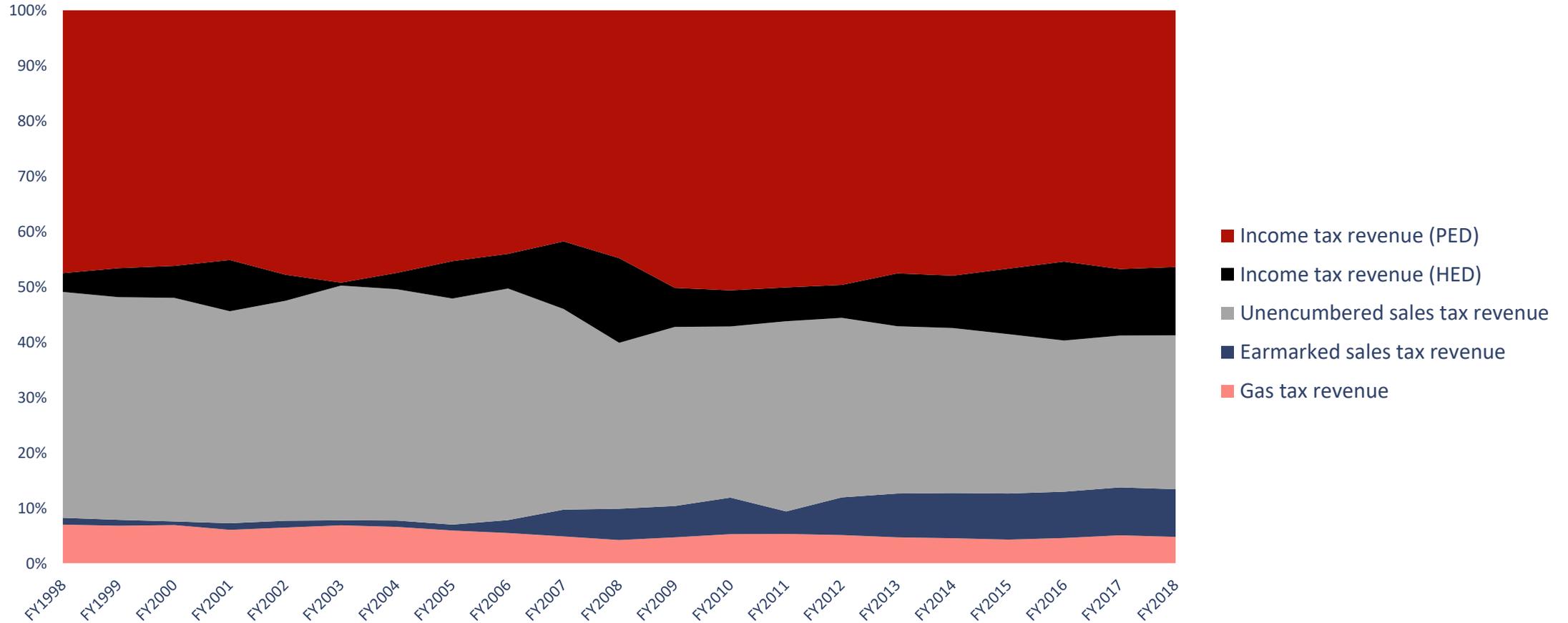
## (INFLATION ADJUSTED PER PERSON)



Sources: Motor Fuel and Unencumbered Sales Tax – Division of Finance Data Warehouse; Sales Tax Earmarks – Utah State Tax Commission; Income tax by use – Office of the Legislative Fiscal Analyst.

# GENERAL REVENUE BY TYPE AND USE

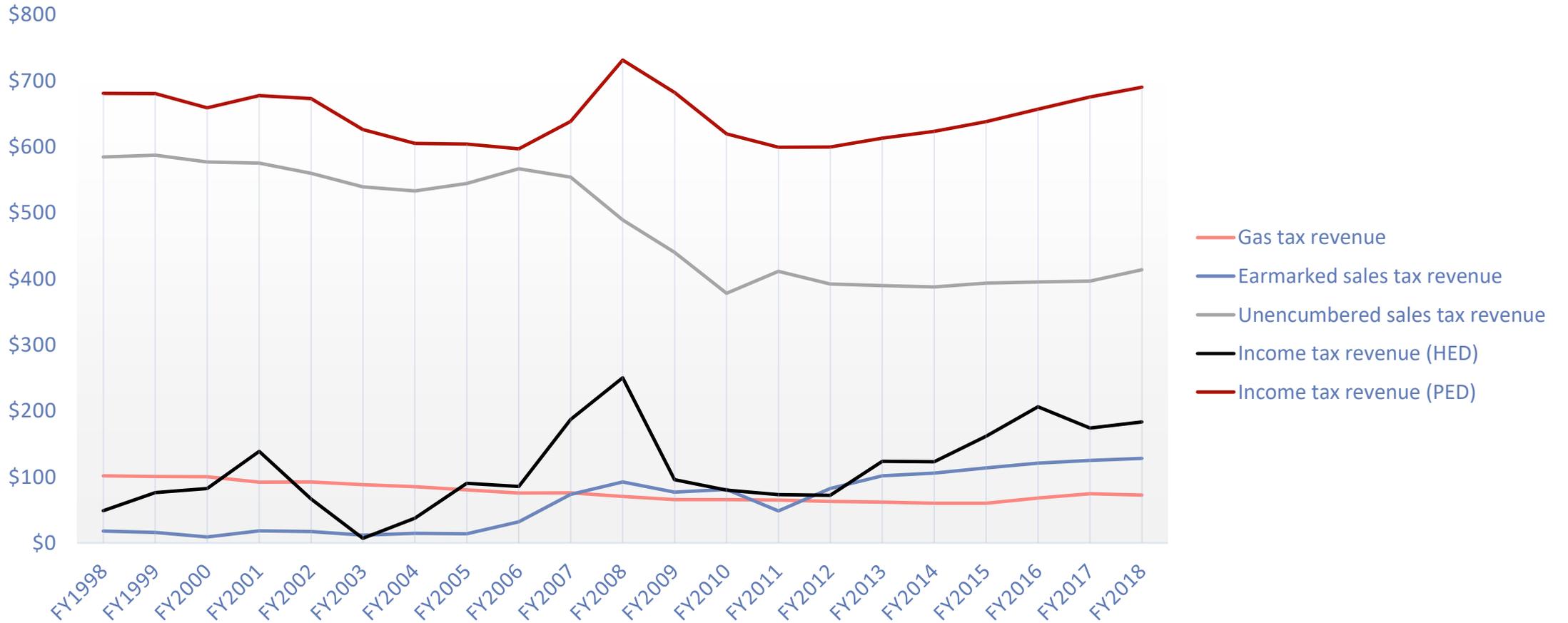
(INFLATION ADJUSTED PER PERSON)



Sources: Motor Fuel and Unencumbered Sales Tax – Division of Finance Data Warehouse; Sales Tax Earmarks – Utah State Tax Commission; Income tax by use – Office of the Legislative Fiscal Analyst.

# GENERAL REVENUE TRENDS BY TYPE AND USE

## (INFLATION ADJUSTED PER PERSON)



Sources: Motor Fuel and Unencumbered Sales Tax – Division of Finance Data Warehouse; Sales Tax Earmarks – Utah State Tax Commission; Income tax by use – Office of the Legislative Fiscal Analyst.

# UTAH'S CONSTITUTIONAL TRANSPORTATION EARMARK

## UTAH CONST. ART. XIII, SEC. 5(6)

“Proceeds from fees, taxes, and other charges related to the operation of motor vehicles on public highways and proceeds from an excise tax on liquid motor fuel used to propel those motor vehicles shall be used for:

- (a) statutory refunds and adjustments and costs of collection and administration;
- (b) the construction, maintenance, and repair of State and local roads, including payment for property taken for or damaged by rights-of-way and for associated administrative costs;
- (c) driver education;
- (d) enforcement of state motor vehicle and traffic laws; and
- (e) the payment of the principal of and interest on any obligation of the State or a city or county, issued for any of the purposes set forth in Subsection (6)(b) and to which any of the fees, taxes, or other charges described in this Subsection (6) have been pledged, including any paid to the State or a city or county, as provided by statute.”

# SUMMARY OF UTAH CONST. ART. XIII, SEC. 5(6)

<b>Earmarked Revenue Types</b>	<b>Permissible Uses</b>
<ol style="list-style-type: none"><li data-bbox="191 461 1156 622">1. Proceeds from fees, taxes, and other charges related to the operation of motor vehicles on public highways</li><li data-bbox="191 672 1179 833">2. Proceeds from an excise tax on liquid motor fuel used to propel those motor vehicles (gas tax)</li></ol>	<ol style="list-style-type: none"><li data-bbox="1289 461 2262 562">1. Statutory refunds and adjustments and costs of collection and administration</li><li data-bbox="1289 615 2333 716">2. Construction, maintenance, and repair of state and local roads</li><li data-bbox="1289 769 1753 815">3. Driver education</li><li data-bbox="1289 868 2290 969">4. Enforcement of state motor vehicle and traffic laws</li><li data-bbox="1289 1022 2341 1183">5. Payment on bonds issued for construction, maintenance, and repair of state and local roads</li></ol>

# HISTORY OF ART. XIII, SEC. 5(6)

<p><b>1961 (SJR 9)</b> <b>First Enacted</b></p>	<p>The proceeds from the imposition of any license tax, registration fee, driver education tax, or other charge related to the operation of any motor vehicle upon any public highway in this state, and the proceeds from the imposition of any excise tax on gasoline or other liquid motor fuels used for propelling such vehicle, except for statutory refunds and adjustments allowed thereunder and for costs of collection and administration, shall be used exclusively for highway purposes as follows:</p> <ol style="list-style-type: none"><li>(1) The construction, improvement, repair and maintenance of city streets, county roads, and state highways, including but not restricted to payment for property taken for or damaged by rights of way, and for administrative necessarily incurred for said purposes.</li><li>(2) The administration of a driver education program.</li><li>(3) The enforcement of state motor vehicle and traffic laws.</li><li>(4) Tourists and publicity expense in any single biennium not in excess of the less of the following: (a) .5 percent of the total biennial revenues from motor fuel taxes, or (b) an amount equal to the 1959-1961 biennium.</li></ol>
<p><b>1999 (SJR 5)</b> <b>Amended</b></p> <p>Replaced Subsection (4)</p>	<p>The proceeds from the imposition of any license tax, registration fee, driver education tax, or other charge related to the operation of any motor vehicle upon any public highway in this state, and the proceeds from the imposition of any excise tax on gasoline or other liquid motor fuels used for propelling such vehicle, except for statutory refunds and adjustments allowed thereunder and for costs of collection and administration, shall be used exclusively for highway purposes as follows:</p> <ol style="list-style-type: none"><li>(1) the construction, improvement, repair and maintenance of city streets, county roads, and state highways, including but not restricted to payment for property taken for or damaged by rights of way, and for administrative necessarily incurred for said purposes;</li><li>(2) the administration of a driver education program;</li><li>(3) the enforcement of state motor vehicle and traffic laws; and</li><li>(4) the payment of the principal of and interest on any obligation of the State or any city or county, issued for any of the highway purposes set forth in Subsection (1), and to which any of the proceeds described in this section have been pledged, including any of such proceeds paid to the State or any city or county, as provided by statute.</li></ol>
<p><b>2002 (SJR 10)</b> <b>Amended/ Renumbered</b></p> <p>Simplified language</p>	<p>Proceeds from fees, taxes, and other charges related to the operation of motor vehicles on public highways and proceeds from an excise tax on liquid motor fuel used to propel those motor vehicles shall be used for:</p> <ol style="list-style-type: none"><li>(a) statutory refunds and adjustments and costs of collection and administration;</li><li>(b) the construction, maintenance, and repair of State and local roads, including payment for property taken for or damaged by rights-of-way and for associated administrative costs;</li><li>(c) driver education;</li><li>(d) enforcement of state motor vehicle and traffic laws; and</li><li>(e) the payment of the principal of and interest on any obligation of the State or a city or county, issued for any of the purposes set forth in Subsection (6)(b) and to which any of the fees, taxes, or other charges described in this Subsection (6) have been pledged, including any paid to the State or a city or county, as provided by statute</li></ol>

# STATUTORY TRANSPORTATION EARMARKS

Earmark	FY2020 Estimated
TIF of 2005 (8.3%) (previously the CHF) (UCA 59-12-103(7))	\$245,471,000
TIF of 2005, (3.68%) (previously fixed for the CHNF) (UCA 59-12-103(8))	\$103,735,000
TIF of 2005 (0.05% non-food) (previously the CHNF) (UCA 59-12-103(10))	\$15,268,000
TIF of 2005 (30% new growth) (UCA 59-12-103(7))	\$257,301,000
TIF of 2005 (1/16%) (UCA 59-12-103(6))	\$17,197,000
Transit and Transportation Investment Fund (UCA 59-12-103(8)(c)(iii))	\$5,100,000
<b>TOTAL:</b>	<b>\$644,073,000</b>

# SUMMARY OF SALES TAX DEDICATIONS FOR TRANSPORTATION

- Overview

- For FY 2020, 6 sales tax dedications for transportation
  - 25.68% of the revenue generated by most state sales taxes is directed to the Transportation Investment Fund of 2005, reduced by the amount directed to the Transit Transportation Investment Fund
  - Amount equal to 35% of the growth in fuel tax rate over 29.4 cpg from the state sales tax revenue directed to the Transit Transportation Investment Fund
    - Rate for first 6 months of FY 2020 is 30 cents per gallon (35% of .6 cpg)
    - Rate for last 6 months of FY 2020 is 31.1 cents per gallon (35% of 1.7 cpg)
- Beginning in FY 2023, 4 sales tax dedications for transportation
  - 20.68% of the revenue generated by most state sales taxes is directed to the Transportation Investment Fund of 2005, reduced by the amount directed to the Transit Transportation Investment Fund
  - Amount equal to 35% of the growth in fuel tax rate over 29.4 cpg from the state sales tax revenue directed to the Transit Transportation Investment Fund

# SUMMARY OF SALES TAX DEDICATIONS FOR TRANSPORTATION – 1/16%

Sales and Use Tax Dedication	Fund Revenue Deposited In	Requirements/ Restrictions on Dedications	Legislative History
<p>FY 2020 only - 40% of 1/16% of state rate</p> <p>FY 2021 only – 20% of 1/16% of state rate</p>	<p>Transportation Investment Fund of 2005 (TIF)</p>	<p>Full 1/16% amount transferred to Water Infrastructure Restricted Account in FY 2022</p>	<p>Originally began July 1, 1996 and deposited into the B&amp;C Roads Account</p> <p>Redirected to the Transportation Fund in 2007 (amount of fuel tax revenue deposited into the B&amp;C Roads Account increased from 25% to 30%)</p> <p>In 2016, redirected to the TIF and phased over to Water Infrastructure over 5 years</p>

# SUMMARY OF SALES TAX DEDICATIONS FOR TRANSPORTATION - .05%

Sales and Use Tax Dedication	Fund Revenue Deposited In	Requirements/ Restrictions on Dedications	Legislative History
<p>FY 2020 only – 50% of .05% of state rate</p> <p>FY 2021 only - 33.33% of .05% state rate</p> <p>FY 2022 only – 16.67% of .05% state rate</p>	<p>Transportation Investment Fund of 2005 (TIF)</p>	<p>Full .05% amount left in the General Fund in FY 2022</p>	<p>Enacted in 2008 and began January 1, 2009, originally divided .025% for Transportation Fund and .025% to TIF</p> <p>In 2016, combined two .025% dedications to .05% and directed to TIF and phased back to the General Fund over 6 years</p>

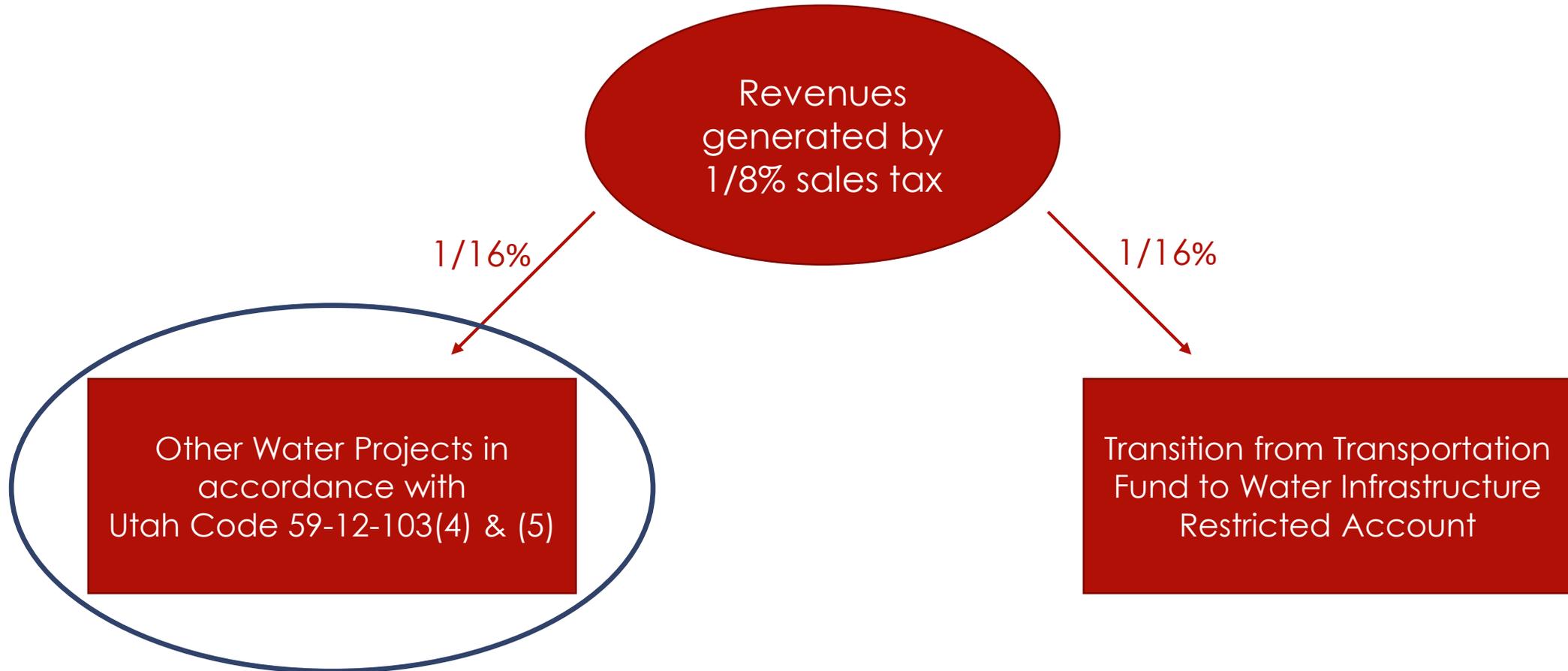
# SUMMARY OF SALES TAX DEDICATIONS FOR TRANSPORTATION – 8.3% & 30% OF GROWTH

Sales and Use Tax Dedication	Fund Revenue Deposited In	Requirements/ Restrictions on Dedications	Legislative History
8.3% of revenue generated from certain state sales and use taxes	Transportation Investment Fund of 2005 (TIF)	Capped at 17% when combined with the sales tax dedication of 30% of the growth over collections in FY 2011	<p>Enacted in 2006 and originally began July 1, 2006</p> <p>Combined with 30% dedication and capped at 17% in 2012</p>
30% of growth over base year (FY 2011)	Transportation Investment Fund of 2005 (TIF)	Capped at 17% when combined with 8.3% sales tax dedication	Enacted in 2011 and originally began July 1, 2012

# SUMMARY OF SALES TAX DEDICATIONS FOR TRANSPORTATION – 3.68% & 35% OF MOTOR FUEL TAX GROWTH

Sales and Use Tax Dedication	Fund Revenue Deposited In	Requirements/ Restrictions on Dedications	Legislative history
<p>3.68% of revenue generated by certain state sales and use taxes</p> <p>Reduced by 35% of the amount of revenue generated in current fiscal year by fuel tax that exceeds 29.4 cents per gallon</p>	<p>Transportation Investment Fund of 2005 (TIF)</p>		<p>Originally enacted in 2007 and began on July 1, 2007 as a fixed \$90,000,000 amount (reductions made to fixed amount in certain years)</p> <p>Converted to a percentage beginning in FY 2019 in 2016</p> <p>35% reduction enacted in 2017</p>
<p>35% of the amount of revenue generated in current fiscal by fuel tax that exceeds 29.4 cents per gallon</p>	<p>Transit Transportation Investment Fund</p>		<p>Originally enacted in 2018 and began January 1, 2019</p>

# SALES & USE TAX REVENUE FOR WATER



# DISTRIBUTION OF 1/16% FOR “OTHER WATER PROJECTS”

UTAH CODE § 59-12-103(4) & (5)

<b>First \$17,500,000</b>	<b>Amount over \$17,500,000</b>
<ul style="list-style-type: none"><li>• 14% (\$2,450,000) to Department of Natural Resources for species protection</li><li>• 3% (\$525,000) to Agriculture Resource Development Fund</li><li>• 1% (\$175,000) to Division of Water Rights for hiring staff for water rights adjudication</li><li>• 41% (\$7,175,000) to Water Resources Conservation and Development Fund</li><li>• 20.5% (\$3,587,500) for wastewater projects</li><li>• 20.5% (\$3,587,500) to the Division of Drinking Water</li></ul>	<ul style="list-style-type: none"><li>• First \$500,000 to Department of Natural Resources for watershed rehabilitation and restoration</li><li>• Next \$150,000 to Division of Water Resources for cloud-seeding projects</li></ul> <p>Any Remaining:</p> <ul style="list-style-type: none"><li>• 85% to Water Resources Conservation and Development Fund (\$21,116,000)</li><li>• 15% to Division of Water Rights for employing staff for the administration of water rights (\$3,900,000)</li></ul>

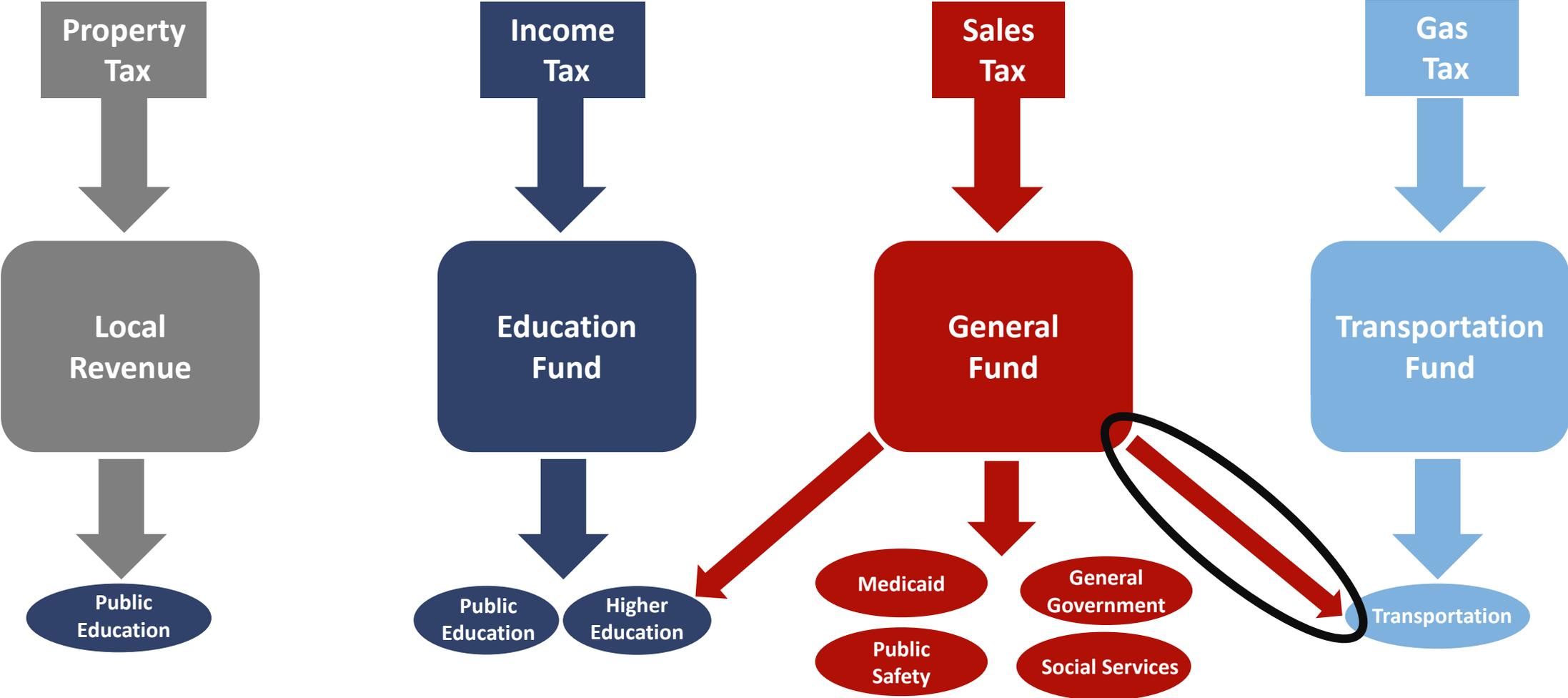
# POLICY OPTIONS

Tax Restructuring and Equalization Task Force

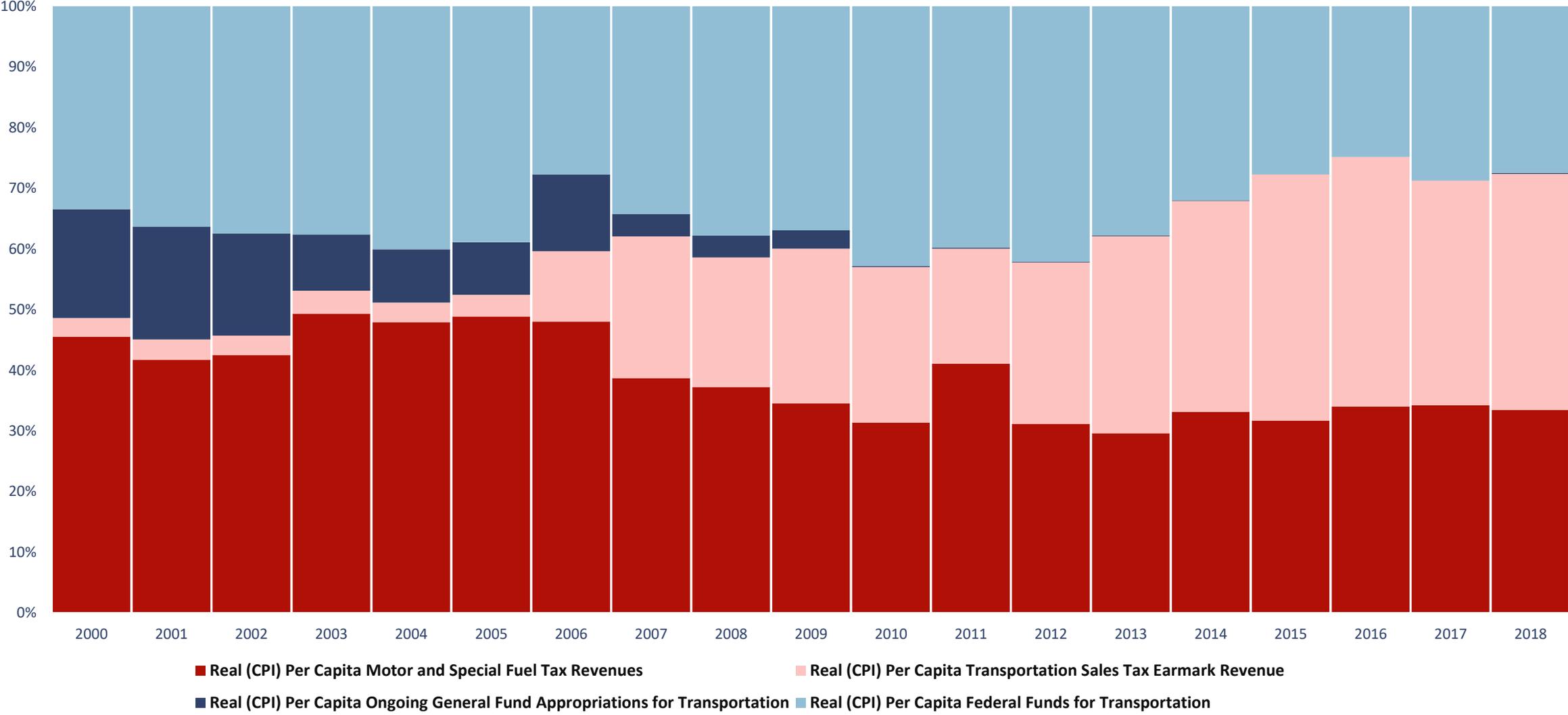
September 26, 2019



# FUNDING SOURCES, OTHER THAN THE GENERAL FUND, ARE SILOED



# STATE TRANSPORTATION FUNDING SOURCES



# INCREASE MOTOR AND SPECIAL FUELS TAX

## Policy Description

- The Legislature could raise the per-gallon tax on gas and diesel purchases to generate additional revenue for transportation needs.
- This excise tax is currently constitutionally earmarked for spending on roads and bridges.
- An increase in fuel excise taxes could be used to reduce the statutory earmarks of sales tax revenue for transportation projects.

## National Comparison

- Utah currently ranks 26<sup>th</sup> in total state taxes on gasoline among U.S. states.

# INCREASED MOTOR FUELS TAX (GASOLINE & DIESEL)

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
Approximately \$90 million for each \$0.05 increase	2.8%	<ul style="list-style-type: none"><li>• Generally follows the business cycle, with lower peaks and troughs</li></ul>

# POLICY CONSIDERATIONS

- **Scope**

- Fuel taxes are paid by residents and visitors.
- Those who live far from their jobs or without access to alternative transportation modes will be impacted the most.

- **Budgetary impact**

- An increase in the motor fuel taxes could free up General Fund money for other programs by reducing earmarks.
  - This would help address the structural challenges.

- **Transitional Period**

- Fuel taxes are a strong example of user fees, but their effectiveness is waning due to technology advancements.
- Road Usage Charge fees could be the primary source of transportation funding in the future, but cannot replace fuel taxes in the short-to-mid-term.

# REPEAL SALES TAX EXEMPTION FOR MOTOR AND SPECIAL FUELS

## Policy Description

- The Legislature could expand the sales tax base by repealing the exemption for motor and special fuels.
- This expansion of sales tax base could be paired with a reduction in statutory sales tax earmarks for transportation.
- Charging the 4.85% state sales tax rate on motor fuel (price of \$2.50/gallon) would equate to \$0.12/gallon in tax.

## National Comparison

- 16 other states apply a per-dollar tax to fuels, in addition to excise taxes.

# REPEAL SALES TAX EXEMPTION FOR MOTOR AND SPECIAL FUELS

(TAXED AT FULL STATE RATE)

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
Approximately \$200 - \$275 million, depending on fuel prices	4.6%	<ul style="list-style-type: none"><li>• More volatile than the economy, follows the price of oil</li></ul>

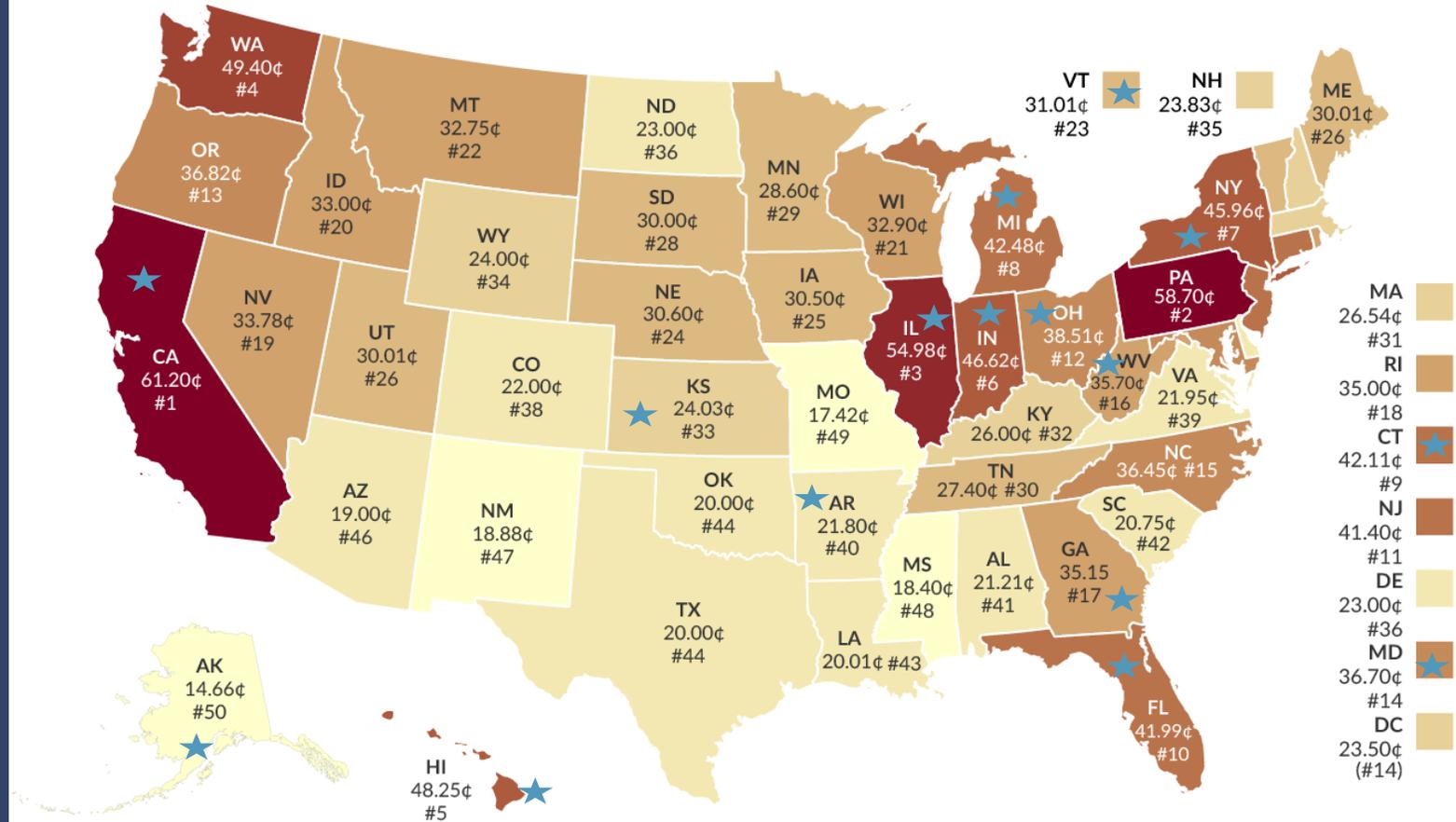
# TOTAL STATE TAXES ON GASOLINE

- Includes:

- Excise taxes
- Environmental fees
- Storage tank taxes
- Other fees or taxes
- General sales taxes

## How High Are Gas Taxes in Your State?

Total State Taxes and Fees on Gasoline, as of July 2019 (cents per gallon)



Note: These rates do not include the 18.40 cent/gallon federal excise tax rate on gas. The American Petroleum Institute has developed a methodology for determining the average tax rate on a gallon of fuel. Rates may include any of the following: excise taxes, environmental fees, storage tank taxes, other fees or taxes, and general sales taxes. In states where gasoline is subject to the general sales tax, or where the fuel tax is based on average sale price, the average rate determined by API is sensitive to changes in the price of gasoline. States that fully or partially apply general sales taxes to gasoline are California, Connecticut, Georgia, Illinois, Indiana, Michigan, and New York. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Source: American Petroleum Institute, "State Motor Fuel Taxes by State (July 2019)"



States that charge both per-gallon and per-dollar taxes.

# POLICY CONSIDERATIONS

- **Scope**

- Sales taxes are paid by residents and visitors.
- Those who live far from their jobs or without access to alternative transportation modes will be impacted the most.

- **Budgetary impact**

- An increase in the sales tax base could free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

- **Transitional Period**

- Repealing this exemption would alleviate some of the structural challenges the state is facing but would not address the long-term trend of a shrinking sales tax base.
  - Sales of gasoline aren't growing as fast as the economy and population.
- Road Usage Charge fees could be the primary source of transportation funding in the future but cannot replace fuel taxes in the short-to-mid-term.

# CREATE A STATE CARBON TAX

## Policy Description

- The Legislature could implement a carbon tax that could address the state's structural revenue problems by pricing externalities into fossil fuel-based energy consumption.
- A carbon tax could generate significant new revenue for transportation and General Fund programs, while lowering sales tax and income tax rates.

## National Comparison

- 10 states have a form of carbon pricing known as cap-and-trade.
  - California has an economy-wide cap-and-trade program.
  - Nine eastern states participate in the Regional Greenhouse Gas Initiative (RGGI) that uses cap-and-trade in the power sector.
- Several additional states are considering carbon pricing policies.

# CARBON TAX

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
Approximately \$500 million	4.0%	<ul style="list-style-type: none"><li>Follows the business cycle</li></ul>

# POLICY CONSIDERATIONS

- **Scope**

- Various aspects of a carbon tax would be paid by only residents while others would be paid by residents and visitors.
- Those who spend a bigger portion of their budget on energy will be impacted the most.
- Targeted tax reductions could be implemented to offset the impacts of the carbon tax on certain populations.

- **Budgetary impact**

- While a carbon tax program could be designed to be revenue neutral to the state, it would dramatically change the balance of our tax structure.
  - Increased revenue from a carbon tax could be offset with reduced sales and income tax rates and/or increased exemptions and credits.
  - This could help address the state's structural challenges.

- **Other impacts**

- A carbon tax would lead to increased costs for fossil fuel-based energy.
- Air quality could be improved due to a reduction in fossil fuel energy and increased funding for air quality projects.
- Companies involved in fossil fuel energy development would be negatively impacted.
- Taxpayers that have a low reliance on fossil fuels could see a net tax benefit from a carbon tax as a result of reduced rates on other taxes.

# MODIFY THE STATE MOTOR VEHICLE REGISTRATION FEE

## Policy Description

- The Legislature could increase the motor vehicle registration fee to generate additional revenue for transportation needs.
- This increase could be paired with a reduction in statutory sales tax earmarks for transportation.
- The Legislature could also modify how the vehicle registration fee is assessed.

## National Comparison

- Every state charges some form of vehicle registration fee, but there is wide variation among states in how fees are calculated and assessed.
- Utah is roughly middle-of-the-pack on actual cost of registration fees.

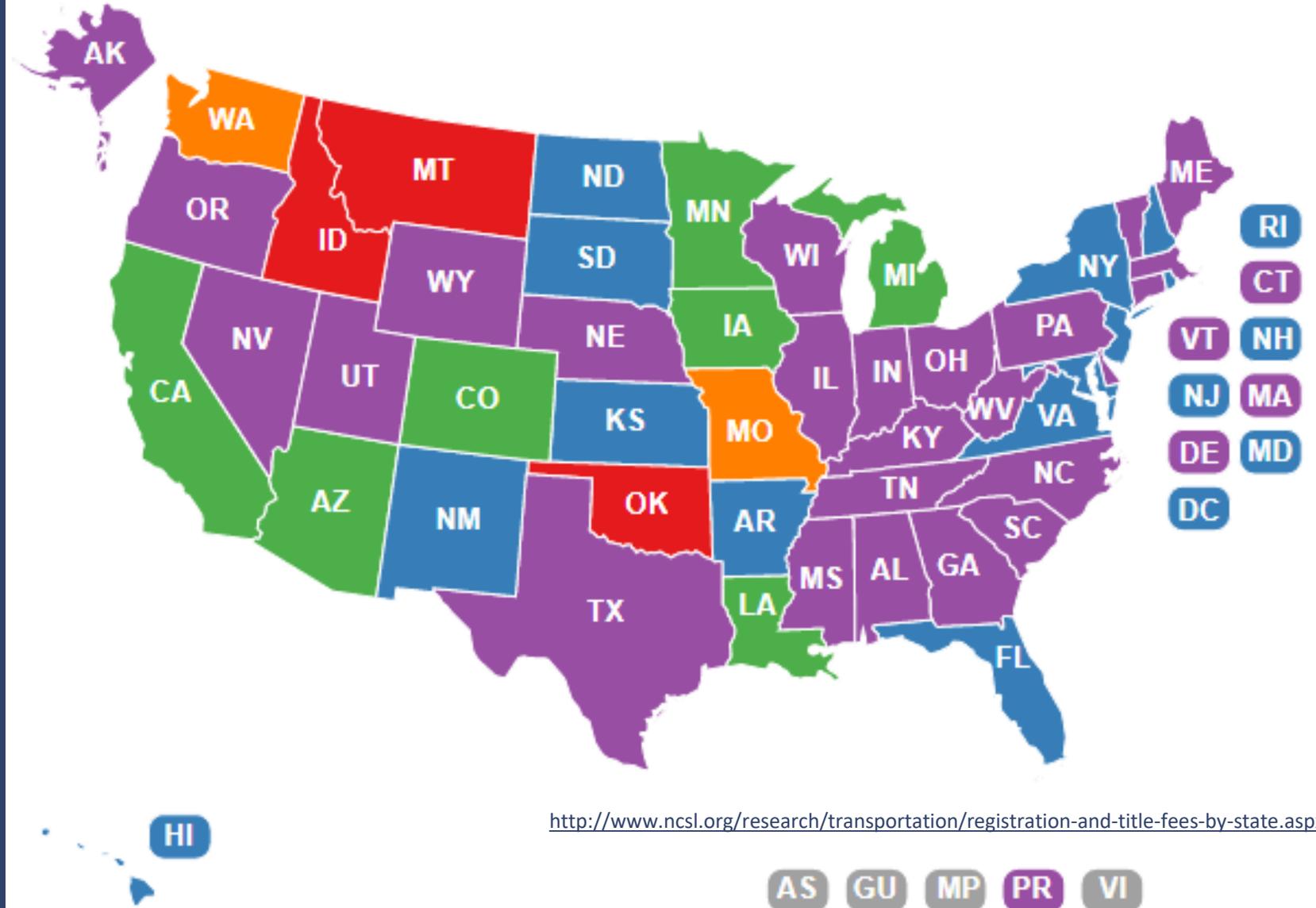
# CURRENT ON-HIGHWAY REGISTRATIONS

County	Motorcycle - Standard	Passenger - Low Speed	Passenger - Standard	Light Truck	Heavy Truck	Trailer - 750lbs or Less	Trailer - Tent or Camper	Trailer - Standard	Trailer - Travel	TOTAL
01 - BEAVER	137		2,915	4,422	392	5	14	1,099	474	9,458
02 - BOX ELDER	1,702	2	27,868	25,850	2,651	4	160	6,127	2,984	67,348
03 - CACHE	3,295	3	47,426	42,591	3,103	31	298	8,241	3,166	108,154
04 - CARBON	627		9,591	10,993	812	1	43	2,149	1,427	25,643
05 - DAGGETT	33	1	563	1,102	86	1	2	375	130	2,293
06 - DAVIS	9,020		145,923	109,189	4,735	31	1,271	15,386	8,678	294,233
07 - DUCHESNE	594		7,614	14,023	2,204	11	38	5,852	1,531	31,867
08 - EMERY	208	1	4,634	6,211	480	2	15	1,682	866	14,099
09 - GARFIELD	126	2	2,101	3,745	319	7	7	1,119	316	7,742
10 - GRAND	629	1	4,448	6,851	413	8	30	1,269	527	14,176
11 - IRON	1,313	1	20,526	23,609	1,532	203	119	4,361	2,007	53,671
12 - JUAB	301		5,831	6,246	936	2	18	1,702	853	15,889
13 - KANE	261	2	3,008	5,089	397	18	23	1,409	461	10,668
14 - MILLARD	272		6,390	7,577	728	1	35	2,323	864	18,190
15 - MORGAN	358		5,722	6,397	489	3	46	1,801	649	15,465
16 - PIUTE	43		772	1,065	117	2	2	386	118	2,505
17 - RICH	72		1,230	1,852	147		4	667	117	4,089
18 - SALT LAKE	26,339	18	491,731	389,450	29,122	123	3,453	48,769	21,119	1,010,124
19 - SAN JUAN	247		3,708	5,918	387	3	18	1,298	440	12,019
20 - SANPETE	559	1	12,972	14,229	1,155	11	76	3,716	1,667	34,386
21 - SEVIER	523	2	9,590	12,237	1,702	13	63	3,300	1,761	29,191
22 - SUMMIT	1,858	2	21,164	28,281	1,326	17	224	4,538	1,263	58,673
23 - TOOELE	2,079	1	34,245	27,510	1,369	4	223	4,645	2,790	72,866
24 - UINTAH	1,064		11,477	19,730	2,914	10	48	6,932	2,694	44,869
25 - UTAH	12,677	17	230,611	173,587	10,706	83	1,296	29,038	12,398	470,413
26 - WASATCH	1,147		14,065	17,182	883	7	127	3,350	1,202	37,963
27 - WASHINGTON	5,624	15	76,022	73,798	5,482	98	435	12,720	5,238	179,432
28 - WAYNE	86		1,244	2,174	279	1	10	713	217	4,724
29 - WEBER	6,961	4	105,309	85,559	5,814	41	873	15,915	8,324	228,800
99 - OUT OF STATE				2	669			186		857
<b>STATE TOTAL</b>	<b>78,155</b>	<b>73</b>	<b>1,308,700</b>	<b>1,126,469</b>	<b>81,349</b>	<b>741</b>	<b>8,971</b>	<b>191,068</b>	<b>84,281</b>	<b>2,879,807</b>

# Registration and Title Fees By State



**MOTOR  
VEHICLE  
REGISTRATION  
FEES VARY  
WIDELY IN  
CALCULATION  
METHODS**



<http://www.ncsl.org/research/transportation/registration-and-title-fees-by-state.aspx>

# INCREASED STATE MOTOR VEHICLE REGISTRATION FEE

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
\$30 million per \$10 increase on all types	3.9%	<ul style="list-style-type: none"><li>• Generally grows at a stable rate</li></ul>

# CONVERT FLAT REGISTRATION FEE INTO A VALUE-BASED FEE

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
Could be structured to be revenue-positive, negative, or neutral	<ul style="list-style-type: none"><li>• 3.9%</li></ul>	<ul style="list-style-type: none"><li>• Follows business cycle with smaller peaks and troughs</li></ul>

# POLICY CONSIDERATIONS

- **Scope**

- Motor vehicle rental taxes are paid by residents.
- Fee is constant, regardless of road use.

- **Budgetary impact**

- Currently, the state motor vehicle registration fees are split between the Transportation Fund and the Transportation Investment Fund.
- An increase in the motor vehicle registration fee could potentially free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

- **Annual lump sum vs. incremental payments**

- A registration fee is paid in one lump sum payment each year, which can be more burdensome for low-income residents.
- Other options, such as the gas tax, are paid on an incremental basis.

- **Flat fee vs. Value-based fee**

- Converting to a value-based registration fee would increase the tax burden on owners of more expensive vehicles and reduce the tax burden on owners of less expensive vehicles.
- Uniform age-based fee would still be charged.

# INCREASE THE STATE MOTOR VEHICLE RENTAL TAX

## Policy Description

- The Legislature could increase the 2.5% state motor vehicle rental tax to generate additional revenue for corridor preservation or other transportation needs.
- This increase could be paired with a reduction in statutory sales tax earmarks for transportation, depending on how the new revenue is dedicated.

## National Comparison

- 43 other states impose a state motor vehicle rental tax, with Utah's 2.5% rate near the low end of rates.

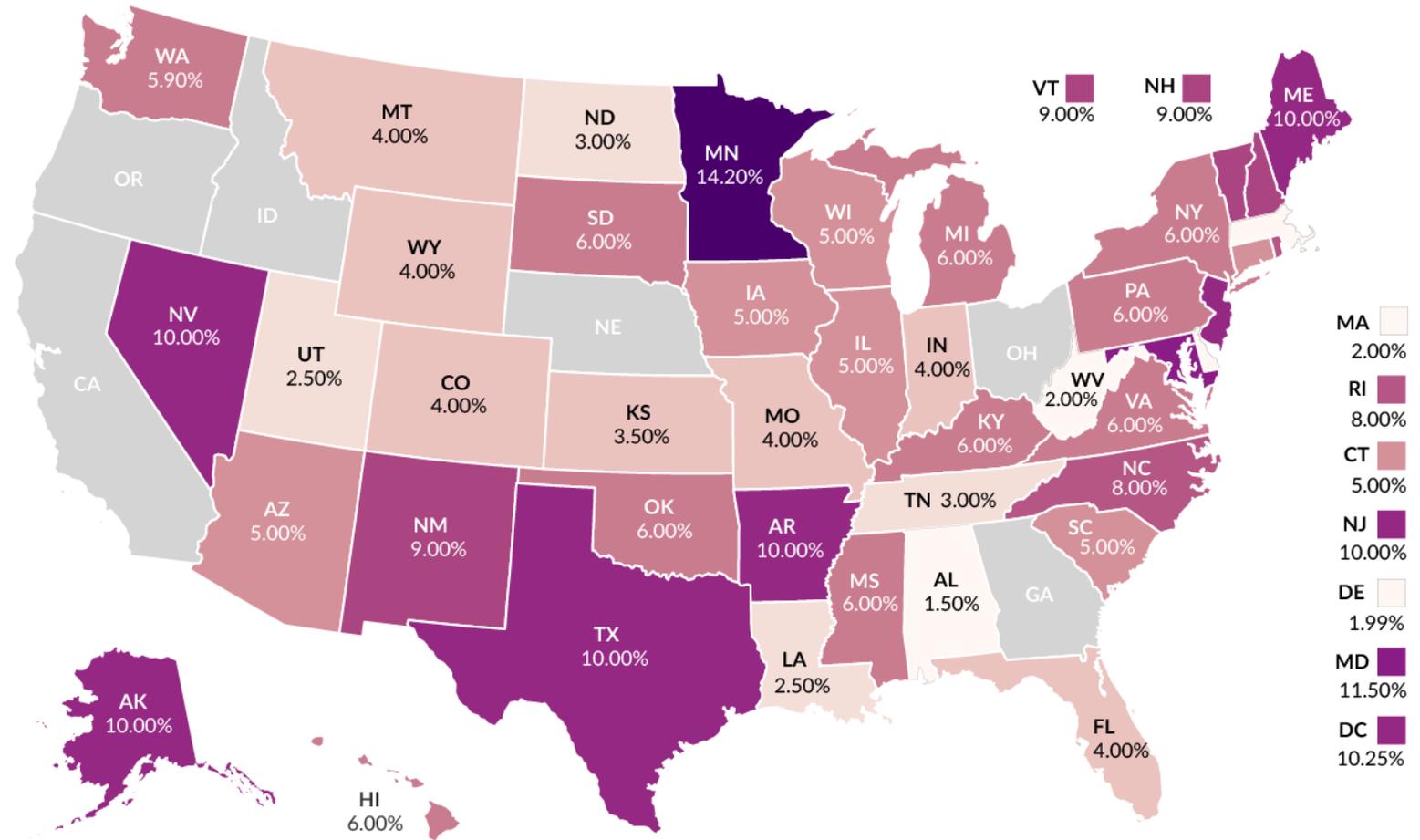
# STATE MOTOR VEHICLE RENTAL TAXES

Many states also have additional local taxes on motor vehicle rentals of less than 30 days.

Utah code (59-12-603) authorizes counties to impose a local sales tax of 3% or 7% on motor vehicle rentals.

## How High Are Car Rental Tax Rates in Your State?

State Effective Car Rental Excise Tax Rates, 2019



Note: Tax rates include state car rental excise taxes and exclude local car rental excise taxes, airport concession fees, state and local sales tax, and rental car recovery fees. Effective tax rates are estimated using a car rental that costs \$50 per day pre-tax for two days, or \$100 total. Effective tax rates are higher when including all taxes and fees. At Chicago's O'Hare Airport, for example, the effective tax rate including all taxes and fees is about 51%. D.C.'s rank does not affect states' ranks, but the figures in parentheses indicate where it would rank if included.

Source: Tax Foundation calculations and state statutes.



# INCREASED STATE MOTOR VEHICLE RENTAL TAX

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
\$3 million per 1%	6.3%	<ul style="list-style-type: none"><li>• Generally follows business cycle</li></ul>

# POLICY CONSIDERATIONS

- **Scope**

- Motor vehicle rental taxes are paid primarily by visitors.

- **Budgetary impact**

- Currently, the state motor vehicle rental tax is dedicated to the Marda Dillree Corridor Preservation Fund.
- An increase in the motor vehicle rental tax could go towards increased corridor preservation or could be used for other transportation purposes.
- Could potentially free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

- **Other impacts**

- Increasing the motor vehicle rental tax could lead to increased use of peer-to-peer car and ride sharing services, many of which are not currently collecting and remitting state sales taxes.

# IMPLEMENT TOLLING MECHANISMS

## Policy Description

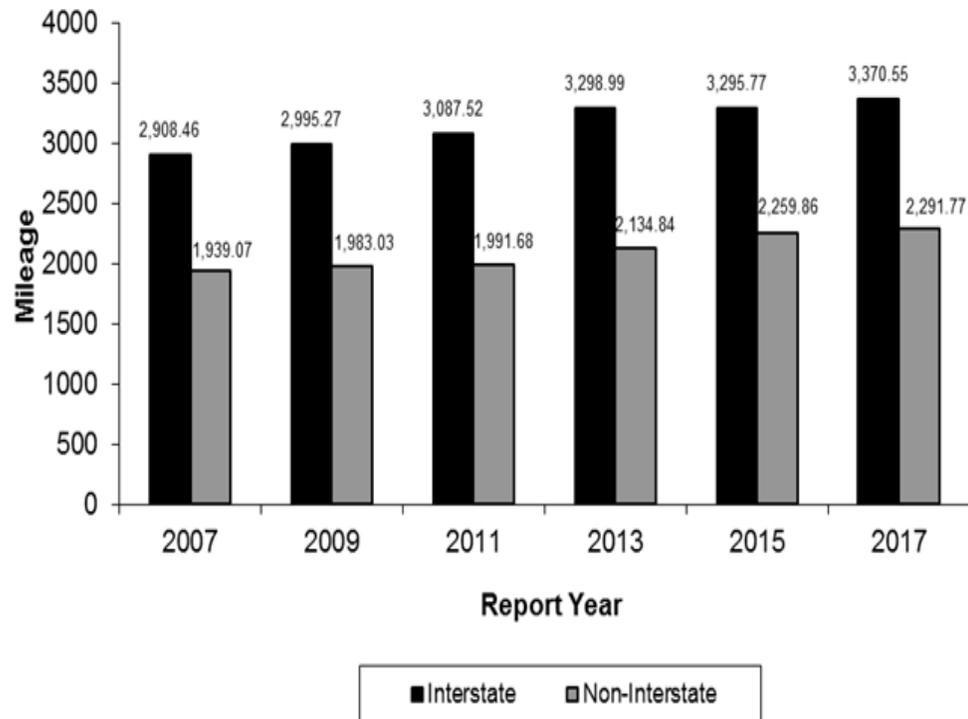
- The Legislature could generate new transportation funding by implementing tolls on certain state roads.
- This expansion of transportation revenue could be paired with a reduction in statutory sales tax earmarks for transportation.
- Road or lane pricing could be used as a revenue generation tool, as opposed to just a demand management tool.

## National Comparison

- A majority (and growing number) of states are utilizing tolling on roads, bridges, and tunnels.

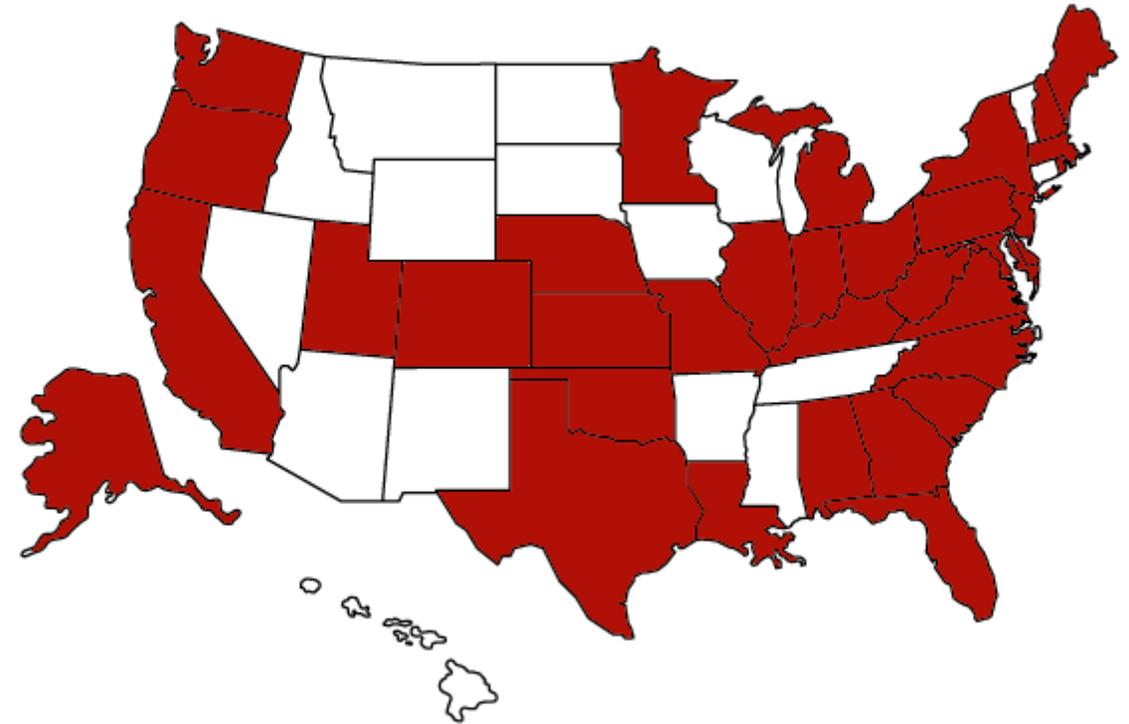
# TOLLING IS GROWING NATIONWIDE

### Toll Road Mileage



<https://www.fhwa.dot.gov/policyinformation/tollpage/page05.cfm>

### U.S. States with Tolling Facilities



[https://www.ibtta.org/sites/default/files/documents/MAF/Map\\_Tolling%20in%20the%20U.S.pdf](https://www.ibtta.org/sites/default/files/documents/MAF/Map_Tolling%20in%20the%20U.S.pdf)

# TOLLING (\$0.05/MILE)

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
Approximately \$1 B for all state highways	<ul style="list-style-type: none"><li>• 2.4%</li></ul>	<ul style="list-style-type: none"><li>• Generally stable, with small business cycle effects</li></ul>

# POLICY CONSIDERATIONS

- **Scope**

- Tolls are paid by residents and visitors.
- Those who rely on newly tolled routes would be impacted the most.

- **Budgetary impact**

- New revenue generated from tolling could free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

- **Types of tolling**

- Tolling could be introduced on entire portions or just on individual lane(s) of certain roads.
- Used to manage throughput or generate revenue?

- **Other impacts**

- If only certain roads are tolled, it could lead to increased congestion on other roads as people seek to avoid tolled roads.

# EXPAND THE ROAD USER CHARGE (RUC) PROGRAM

## Policy Description

- The Legislature could implement a RUC that would charge drivers for their actual use of the roads.
- This per-mile tax could eventually replace the state's fuel taxes, but in the medium-term would likely be used in conjunction with existing fuel taxes.
- This new revenue could be paired with a reduction in statutory sales tax earmarks for transportation to free up General Fund revenue for other programs.

## National Comparison

- Around 10 states have RUC pilot programs completed or planned

**ROAD USER  
CHARGE  
PROGRAM  
(1.7 CENTS/MILE)**

<b>Est. Revenue (FY21)</b>	<b>Est. Growth Trend (CAGR)</b>	<b>Stability Over Time</b>
Approximately:  \$363 million for all state highways  \$200 million for interstates only  \$131 for urban interstates only	• 2.4%	• Cyclical with the economy

# POLICY CONSIDERATIONS

- **Scope**

- At implementation, road usage taxes are likely paid by residents and not visitors.
  - As technology advances, out-of-state drivers could be required to pay.
- Those who live far from their jobs or without access to alternative transportation modes will be impacted the most.
  - Though some studies have shown a RUC to be more beneficial to rural drivers than a gas tax.\*
- The Legislature could start with a smaller, low-technology program, then convert to a large-scale program when the available technology makes that more feasible.

- **Budgetary impact**

- New revenue from a RUC program could free up General Fund money for other programs by reducing transportation earmarks.
  - This would help with the structural challenges.

- **Forward-looking**

- Sales of gasoline aren't growing as fast as the economy and population.
- A RUC would capture all road use, even by vehicles that do not purchase fuel.
  - As the number of less-or-no-fuel vehicles increases, RUC taxes would keep pace, unlike fuel taxes.
- Road Usage Charge fees could be the primary source of transportation funding in the future, but cannot replace fuel taxes in the short-to-mid-term.

\*"Transportation Research Record," Journal of the Transportation Research Board, vol 2450, 2014, 31.

# ELIMINATE CERTAIN SALES TAX EXEMPTIONS

## Policy Description

- The Legislature could eliminate existing sales tax exemptions on certain transactions to broaden the sales tax base.
- There are currently 89 sales tax exemptions that remove certain transactions that would otherwise be subject to sales tax from the sales tax base.
- The estimated value of these exemptions is approximately \$1B.
- The likely policy goals of these transactions include: eliminating tax pyramiding, promoting charitable organizations, enabling an efficient collection system, and incentivizing or reducing costs for certain transactions such as health care purchases.

## National Comparison

- Utah ranks 27<sup>th</sup> in the United States\* for sales tax breadth or percent of consumption subject to sales tax (~34%).

# POLICY CONSIDERATIONS

- **Scope**

- Any number of existing exemptions could be eliminated or modified to scale this policy change to meet the legislature's goals.

- **Budgetary impact**

- Eliminating or reducing sales tax exemptions would broaden the sales tax base and increase General Fund revenue.

- **Reporting**

- The state has little data on the actual costs of sales tax exemptions because reporting requirements have been repealed. Prior to their repeal, the quality of data the reporting requirements provided was low.

# LOCAL OPTION SALES TAXES FOR TRANSPORTATION

- The Legislature has authorized five “quarter percent” local option sales taxes for transportation.
- The allowable uses for the local options vary based upon authorizing statute, county size, regional plans, transit districts, and other factors.
- Currently, four counties and 2 municipalities have implemented all of the first four options.
  - (the fifth option has only been available since July 1, 2019)

# LOCAL OPTION HEADROOM

	Option 1-4 (Transit or Roads)	Option 5 Eligible Counties (Transit Only)	Option 5 Ineligible Counties (Transit Only)
Counties with transit	\$53.1M	\$102.4M	\$19.7M
Counties without transit	\$29.5M	\$0	\$7.9M
<b>Total</b>	<b>\$82.6M</b>	<b>\$102.4M</b>	<b>\$27.6M</b>

# REDUCE B&C ROAD FUND PERCENTAGE

## Policy Description

- Utah code currently appropriates 30% of revenue that flows into the Transportation Fund to be used for class B & C roads.
- The legislature could reduce the percentage of Transportation Fund revenue appropriated to class B & C roads and allow counties and cities to use local option sales taxes to fund the operation of those roads.
- Similar to the basic school program, the legislature could hold harmless counties and municipalities with low sales tax bases.

**REDUCE B&C  
ROAD FUND  
PERCENTAGE  
(PER 1%)**

<b>Est. Revenue (FY21)</b>	<b>Est. Growth Trend (CAGR)</b>	<b>Stability Over Time</b>
Approximately \$6M	2.8%	<ul style="list-style-type: none"><li>• Generally follows the business cycle, with lower peaks and troughs</li></ul>

# POLICY CONSIDERATIONS

- **Budgetary impact**

- Reducing the percentage of Transportation Fund revenue going to B & C road funds would increase the portion of gas tax revenue available for state roads.
- This could free up some general fund revenue, but the impact would be reduced over time as gas tax revenue as a share of total budget continues to decline.

- **Local impact**

- Counties and municipalities have varying sales tax bases, limiting the ability of some areas to generate sufficient sales tax revenue to make up for lost B & C road fund revenue.



UTAH STATE

**LEGISLATURE**